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Subject: FW: sma c a ms patent court comments
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To: [REDACTED]



From: Essex, Theodore R. [REDACTED]
Sent: Thursday, August 25, 2022 11:32 AM
To: ACUS Information <info@acus.gov>
Subject: small claims patent court comments

I would like to resubmit the comments I offered the last time this topic arose. These comments echo those of previous thought leaders in the field, and summed up they suggest unless it can be made mandatory, the effort is futile.

Theodore Essex
Senior Counsel



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Response to Request for Comments on a Patent Small Claims Proceeding in the United States (77 Fed. Reg. 74830 (Dec. 18, 2012)) made by U.S. Patent and Trademark Office, Department of Commerce

Comments by:

**Hon. Theodore R. Essex
Administrative Law Judge
U.S. International Trade Commission
500 E St. S.W.
Washington, D.C. 20436**

1. Provide a general description of your understanding of the need or lack of a need for a patent small claims court or other streamlined proceedings. If you believe there is a need, please provide a description of which types of patent cases would benefit from such proceedings. If you believe that there is not a need for such a court or proceedings, please share why you hold such a view.

It is beyond dispute that those with intellectual property of modest or low value currently have difficulty enforce their property rights. I have reviewed the comments of others on this subject, and will not try to restate what has been well stated by others.

As 1990 ABA Resolution 401.4 states:

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors, in principle, legislation for the establishment of an expedited, low-cost small claims procedure within the federal judiciary for the resolution of civil patent and copyright disputes subject to exclusive federal jurisdiction, having an amount in controversy less than an appropriate stated sum.

The difficulty that resulted in no action being taken in the 1989-1990 timeframe was an inability to surmount the constitutional right to a jury trial in patent cases involving more than \$20 in dispute, and the costs of appeal. While the subcommittee of the ABA studying the proposal had enthusiasm for the idea of a small claims court, that enthusiasm hinged on the procedures being “mandatory” rather than only voluntary. In remarks made to amend the proposal to make the small claims procedure mandatory, Mr. Don Dunner was explicit:

Mr. Dunner then moved to amend: “The amendment would be in line 2, to delete the word ‘an’ before ‘expedited’ and to insert in its place ‘a mandatory.’” The motion was duly seconded, and Mr. Dunner spoke on the motion: “I make this motion because I am convinced that that was the intent of the proposal, and, in fact, that is the intent of related proposals that have been floating around in the AIPLA and other groups, which have received a lot of support from a lot of leaders of the profession.

There was a conference at the Franklin Pierce Law School in New Hampshire within the last year, and there were at least 20 or 30 opinion leaders in the profession who are almost unanimous in their excitement about this kind of procedure. But their excitement was keyed to it being mandatory; but if it is voluntary, you have nothing more or less than you have today.

This problem with implementing any new small claims patent court has not been overcome in the proposals being considered today. At this time, the small claims court would only be able to take cases where parties agreed to waive various rights that are available in District Court. These would include the right to a jury trial, the right to injunctive relief, the right to full discovery, and supplemental or ancillary jurisdiction over related non-patent claims. While such a forum would indeed be useful and save costs and time compared to litigated District Court cases, it largely duplicates existing tools for handling cases. Currently, if the parties waive their rights as would be necessary under the small claims court proposal, the District Courts can provide mediation or trial before a magistrate, and so there is

no need for an additional court. In addition, having the District Courts handle the cases with their current resources (magistrates, judges, and mediators) would save the court system administrative costs and headaches, require no additional steps for the parties to take, and would not require the parties to travel to a judge, nor a judge to travel to where the parties are. The problems identified by Mr. Dunner do not seem to be addressed any better today than they were in the previous century.

In addition there may be problems created by such a forum that cannot now be anticipated. One of the great concerns in patent litigation today is the aggressive assertion of patent rights by NPEs and PAEs. In a forum with lower costs for litigation, patents that are not worth asserting in a District Court may become viable subjects for suit. A legal practice designed around the concept of multiple lawsuits involving a number of patents that would be easier to settle at low cost than to try may create a greater problem than the one we seek to solve. While the right to remove a case to the District Court could prevent some damage, the small claims forum may be subject to abuse. There are additional issues raised by the right to a trial in District Court if a party is unsatisfied with the outcome in the small claims patent court. If the right to a trial De Novo is retained, it is difficult to see where the savings in time and money may be realized. While a judge may assess costs at the end of the trial, if we are dealing with small entities with little capitalization, that relief may come too late, and there is the uncertainty that the judge would grant such relief. If the defendants are large, they may accept such a court in the beginning to lengthen the time they have to continue the infringing behavior, and this may provide them with a way to delay justice rather than achieve it.

While the difficulties created by the rights of the parties are not overcome by a voluntary small claims patent law court, I believe new procedural rules within the current framework of District Courts could provide some of the relief being sought by the PTO and parties. The Advisory Council for the Federal Circuit (ACFC) has addressed the problem of E-Discovery expenses with a model order designed to curb the rising costs. The key to the authority for this order is the concept of proportionality, which provides a balance between the costs and need for additional matters. The E-Discovery Order notes: "Such expenses are compounded when attorneys use discovery tools as tactical weapons, which hinders the "just, speedy, and inexpensive determination of every action and

proceeding.” Fed. R. Civ. P. 1.” *See* “An E-Discovery Model Rule” This model order has been widely adopted and met general approval from the bar.

The same approach could be applied to small patent claims. If the parties are willing to waive their rights, then either arbitration or a magistrate judge can provide the benefits that are proposed in creating a small claims patent court. The only way to improve the lot of the small patent holder with any reform is to contain costs when one or more parties do not want to cooperate. The use of model rules, based on the same concept as the E-Discovery rule, would go a long way to provided judges with management tools that would help contain costs and manage smaller patent cases. As in the E-Discovery model rule, the judge should have the power to limit discovery in broad ways, and should have authority to limit the forms of discovery where the costs of one form may be out of proportion with the value of the claim. District Court judges have long had the authority to limit patent cases to manage their docket, including such powers as limiting the number of patents and patent claims asserted, limiting claim terms to be construed and limiting time for presentations. I would recommend that the ACFC consider model rules in small claims patent cases, which would include limiting discovery, requiring settlement conferences and/or mediation, allowing alternative presentations of evidence such as permitting direct testimony in writing. (In examining other models of patent dispute resolution, the European courts consider only written submissions, as do the Japanese courts and some others).

The Advisory Council in the introduction to the model order observed this about E-Discovery practice:

In recent years, the exponential growth of and reliance on electronic documents and communications has exacerbated such discovery abuses. Excessive e-discovery, including disproportionate, overbroad email production requests, carry staggering time and production costs that have a debilitating effect on litigation. Routine requests seeking all categories of Electronically Stored Information often result in mass productions of marginally relevant and cumulative documents. Generally, the production burden of these expansive requests outweighs the minimal benefits of such broad disclosure.

The same could be said about many of the aspects of pretrial practice in patent cases, and the use of a standard that addressed the disproportionate costs of litigation could and should be addressed. While such rules would not eliminate all excess costs, a judge, using the management tools available to a District Court judge, including assessing costs to an unreasonable party, may go a long way in getting small patent cases to settle at a lower cost than currently is the case. Managing the expenses of small patent cases in this manner would also eliminate the problem of requiring a “Do over” in a jury trial if one party was not satisfied with the results. As District Courts have a consistent record of resolving civil matters before trial, there is reason to believe that if the judges had model rules available that would contain the costs of litigation that we would greatly improve the results for parties in small patent cases, even where one or more parties did not want to cooperate.

2. Please share your views, along with any corresponding analysis and empirical data, as to what a preferred patent small claims proceeding should look like. In doing so, please comment on any of the following issues:

(a) What the possible *venues* for a small claims proceeding should be, including whether patent small claims should be heard by Federal District Court judges or magistrates, whether patent small claims should be handled by an Article I court, such as the U.S. Court of Federal Claims, or whether patent small claims should be heard in another venue not specifically listed here;

The best venue for the trial of small patent cases would be the current one, District Court. Because of the rights of the parties as discussed above, any additional venue could add to the complications and length of time to resolve a case. The District Courts currently have the authority to limit the number of patents, claims and claim terms to be tried, an authority up-held by the CAFC, *In re Katz Interactive Call Processing Patent Litigation*, 639 F.3d 1303 (Fed. Cir. 2011). Looking to the Rules of Civil Procedure, the District Courts could further restrict discovery in smaller cases to ensure the costs stayed proportional to the value of the case. As the introduction to the model order stated: “Fortunately, District

Courts have inherent power to control their dockets to further “economy of time and effort for itself, for counsel and for litigants.” *Landis v. North Am. Co.*, 299 U.S. 248, 254 (1936).” The court should use the inherent power already available to limit the issues, claims, discovery and other aspects of a case to keep the costs contained and within the value of the case. As the District Courts have the tools to address this, I believe they are the forum to use, with the help of the Advisory Council to the CAFC. An obvious advantage of these courts is the District Courts will not require travel, or any arrangements to carry out this function, they are currently handling these cases, and by giving them the tools to limit or shift costs they can continue to do so in small cases. This program could also be coupled with the Pilot Patent Program, so as to be implemented slowly and given an opportunity to work. If the district judges manage the costs of smaller patent cases aggressively, given the low percentage of patent cases that go to trial, around less than 4% over the last 5 years (From the Administrative Office of the United States Courts) real relief for all small patent claims may be more likely than if all parties must agree to the procedure.

(b) What the preferred *subject matter jurisdiction* of the patent small claims proceeding should be, including which if any claims, counterclaims, and defenses should be permitted in a patent small claims proceeding;

Under this proposal there would be no reason to review current subject matter jurisdiction of the District Courts.

(c) Whether parties should agree to waive their right to a *jury trial* as a condition of participating in a small claims proceeding;

The need for the parties to wave the jury trial right provided by the 7th Amendment to the US Constitution is a major problem in any small claims court proposal, including the one presented by the ABA committee. By using the authority of the District Court judges to manage their cases and to insure that the costs remain proportional to the value of the litigation, there is no need to attempt to get around the Constitution. In addition, with the magistrate programs, and mediation, if the parties do agree to wave the right to a jury trial, the District Courts have the resources to deal with small patent cases right now, no additional venue is required.

(d) Whether there should be certain required *pleadings or evidence* to initiate a small claims proceeding;

I agree that all of the pertinent information regarding the patent should be filed, the patent; filing history; a statement of prior art; and statement summarizing evidence of the product, machine, or process alleged to have been infringed. In addition, I would ask the Advisory Council to CAFC to consider making the plaintiff address matters such as claim construction, the value of the case and any other matter that would move the case expeditiously. They should consider making the defendants state their theories specifically in the answer, and look at other ways to narrow the issues quickly.

(e) Whether a *filing fee* should be required to initiate a small claims proceeding and what the nature of that fee should be;

The parties should be required to pay filing fees authorized under 28 U.S.C. § 1914, 28 U.S.C. § 1926(a), and 2012 US ORDER 0015 (C.O. 0015) (Miscellaneous Fee Schedules District Court Miscellaneous Fee Schedule; United States Court of Federal Claims Fee Schedule).

(f) Whether *multiple parties* should be able to file claims in a small claims proceeding and whether multiple defendants may be sued together;

As multiple parties increase the potential for complication, allowing multiple parties may take the case outside the range of the small claims procedure fairly quickly. However, 35 USC 299 makes this less of a problem than it could be by limiting joinder. Moreover, under the proposal included here to use existing tools at the district court, the judge can control discovery even with multiple defendants.

(g) What role *attorneys* should have in a small claims proceeding including whether corporations should be able to represent themselves;

No change in the role of attorneys in the District Court would be necessary.

(h) What the preferred *case management characteristics* that would help to control the length and expense of a small claims proceeding should be;

In addition to the points made above, the judges should be given wide range to control the costs, including limitations of discovery per the model E-Discovery rule, provide strong case management directives, limit witnesses and discover

when possible and look to other jurisdictions such as those used by the “rocket dockets” such as Eastern District of Virginia or the ITC for models. The use of mediation and other settlement techniques to force the parties to see if there is common ground should be encouraged. The judges should be granted broad authority to assess costs against an uncooperative party.

(i) What the preferred *remedies* in a small claims proceeding should be including whether or not an injunction should be an available remedy and any minimum threshold or maximum cap on damages that should be imposed;

If the judges are allowed to use their case management authority to contain the costs and speed the process of a small patent claims court, there is little reason to limit the remedy at the outset. However, if injunctive relief is sought, the case may not fit well in the small claims model.

(j) Whether a small claims proceeding should include *attorney’s fees* or some form of a “loser pays” system;

The assigning of costs to one or the other party is a powerful tool for a judge to have to ensure cooperation, and to prevent the abuse of the process by one or more parties. While it may not be wise to adopt the English system of loser pays, allowing the assessment of costs as a method for the court to ensure full cooperation of the parties could be useful.

(k) Whether a small claims proceeding should include *mediation* and whether mediation should be mandatory or permissive;

This should be left to the court as to how they would like to facilitate settlement negotiations. While mediation is a useful tool, the District Court Judges will be in the best position to determine whether to mandate it in a particular case.

(l) What type of *record* should be created during a small claims proceeding including whether hearings should be transcribed and whether a written decision should be issued;

The court should remain a court of record.

(m) What *weight* should be given to a decision rendered in a small claims proceeding in terms of precedent, *res judicata*, and estoppel;

The court would remain and act as a US District Court, and its judgment in a “small” patent case should be treated as any other judgment the court enters.

(n) How should a decision in a small claims proceeding be *enforced*;

As any other District Court Judgment.

(o) What the nature of *appellate review* should be including whether there should be a direct appeal to the U.S. Court of Appeals for the Federal Circuit or whether there should be intermediate review by a U.S. district court or some other venue;

See above, the appellate rights would be the same, and go to the CAFC. An advantage of using the District Courts and the judges’ power to manage cases is to avoid any constitutional issues that may come about from creating a new court with no right to jury trials, and the other problem of allowing an appeal to a District Court for a retrial before a jury.

(p) What, if any, *constitutional* issues would be raised by the creation of Federal small claims proceedings including separation of powers, the right to a jury trial, and/or due process;

If the courts proceed in the manner suggested here, there are no constitutional issues raised. The only possible concern would be if a particular judge went outside the scope of permissible case management; however, that could be reviewed by CAFC on appeal.

(q) Whether the patent small claim proceedings should be *self-supporting financially*, including whether the winning and/or losing parties should be required to defray any administrative costs, and if so, how would this be accomplished;

The alternative plan proposed in this comment to handle small claims within the existing framework of the District Courts would negate a need for further expenditures, and the cases are already in the District Court systems currently. The cases would remain part of the normal expenses of the courts, and not generate the additional administrative costs that a new court would.

(r) Whether and how to *evaluate* patent small claims proceedings, including whether evaluations should be periodic and whether the patent small claims proceeding should be launched initially as a pilot program;

The alternative program proposed in this comment could be implemented within the framework that was used for the model E-Discovery program. The District Courts that have an interest in the program could chose to use the rules as written, or use some of them. The results could be monitored by the Administrative Office of the United States Courts.

(s) Any other additional pertinent issues not identified above that the USPTO should consider.

The risks of unintended consequences are present in creating a new court, among them there is a possibility that non-practicing entities would be able to take advantage of the system to the disadvantage of manufacturers. While the size limit on the claims under the proposal to create a new small claims court separate from the District Court may discourage the larger NPEs, it may open the way for smaller entities to file larger numbers of cases.

It is also worth considering that such a court, with only voluntary jurisdiction, will not address the problem of costs in smaller patent cases at all. The statistics provided by the AIPLA for the ABA-IP section and those provided by the Administrative Office of the United States Court do not break out the costs where parties agree to waive trial by jury and appellate rights. It is probable that cases where the parties are that cooperative are at the very low end of the cost scale, and even under the current system are not the cases that require relief from burdensome expenses. Without further study of the expenses of potential litigation where all parties are willing to waive their rights as outlined in the proposal, we may set up a court to correct problems that do not exist even under the current system.

3. Please share any concerns you may have regarding any unintended negative consequences of a patent small claims proceeding along with any proposed safeguards that would reduce or eliminate the risk of any potential negative unintended consequences, to the extent any such concerns exist.

It seems that the disadvantages to a new small claims patent court have been thoroughly reviewed since 1989, and an appropriate resolution of those issues has not been found. The courts since that time have gone forward with a number of advances including mediation, patent local rules, and the Pilot Patent Program. It

makes sense to build on the work that has been done, and use tools that are available now to make what progress we can. If the IP community sets up a court, having lobbied for it, gotten legislation for it and spent the money to establish it, the IP community risks a great deal of credibility if the court is not utilized. If it disappoints inventors with a new “solution” that does not work, and demonstrates to congress that the IP community has ideas that cannot be implemented in a useful way, it can hurt our ability to address issues that may be of greater importance in the future. Rather than attempt something that has been examined and rejected as unworkable before, we are better served to use the existing resources to better focus issues and control costs.